

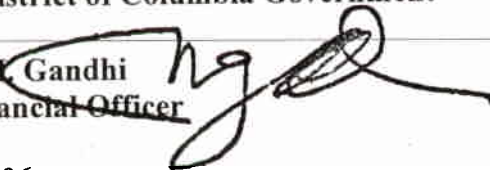
**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Anthony A. Williams
Mayor, District of Columbia Government

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: May 5, 2006

SUBJECT: National Capital Medical Care

We have studied various fiscal issues relating to providing medical care in the District. Since you have appointed a panel to examine the National Capital Medical Care (NCMC) proposal and explore various forms it could take, we are providing this analysis to you for your consideration as the panel begins its work. The Office of the Chief Financial Officer is willing to assist the panel in any way.

Briefly, the original proposal for a full service hospital called for capital expenditures of \$5.21 million in FY 2006 and \$227.76 million for the period of FY 2006 through FY 2009, for a total District capital expenditure of \$233.76 million. Two potential funding sources were identified -- securitization of anticipated tobacco payments and capital funding in the Mayor's FY2007-2010 capital improvement plan. The final proceeds from a securitization of tobacco payments will be known when the transaction is finalized this summer; if the market does not change, it is expected to be approximately \$200 million.

We have serious concerns about the operating risks of a full service hospital. All start-up operations face varying degrees of risk. Our questions about the future operational viability of the proposed full service hospital -- National Capital Medical Center -- concerned the underlying revenue assumptions, the anticipated payor mix, the operating cost assumptions, and the level of uncompensated care.

The Critical Impact of Howard University's Contribution to the District of Columbia

The Office of the Chief Financial Officer recognizes the critical contribution that Howard University and Howard University Hospital have made to the District of Columbia. Since its founding in 1867, Howard University has been one of the premier institutions of higher learning in the nation and has attracted very talented students from all over the nation to live and learn in the District of Columbia. Howard University Hospital provides important health services to District residents and has trained thousands of doctors, predominantly African-Americans, who provide the highest quality health care to people in this and other communities. These contributions cannot be understated.

Capital Cost

The original proposal called for an agreement between the District of Columbia and Howard University for the construction of a full service hospital on the site of the former DC General Hospital. Specifically, it would be built on the portion of Reservation 13 identified as Sites B and C. However, as of the date of this analysis, Howard University has not provided a finalized plan for the proposed medical center.

The agreement would require the District to pay no more than 50 percent of the project costs, reaching up to but no more than \$212.168 million. Project costs include a \$42.4 million contingency fund.

The District also is responsible for \$21.59 million of expenditure for public infrastructure that will serve any project located at this site. The District's \$10.035 million "share" of costs for switching from above ground parking to underground parking would be taken from the budgeted contingency. The remaining \$32.365 million in contingency represents 14% of the project budget and could cover soil remediation expenses along with other unidentified contingencies.

Estimated Capital Cost of Full Service Hospital FY 06 - FY 09 (\$ in Millions)					
Item	FY 2006	FY 2007	FY 2008	FY 2009	4-Year Total
District share of hospital project cost	5.40	206.77	-	-	212.17
Site preparation and infrastructure costs	5.81	15.79	-	-	21.59
Total	11.21	222.55	-	-	233.76

To support the cost, approximately \$11 million will be needed in FY 2006 and approximately \$222.5 million in FY 2007. As previously noted, approximately \$200 million is currently expected from a tobacco securitization this summer. If the District proceeds with the full service hospital, Council action will be required to close the remaining funding gap.

In every budget commitment, the District's decision to fund one project would mean that resources are not available for alternative uses. In this case the discussion of opportunity costs would include the best use of the proceeds from tobacco securitization and the particular site. See Appendix A for more discussion of the capital costs. As background, the site belongs to the federal government; however, use of the site was transferred to the District in 2002. Pending federal legislation would transfer title of the land to the District. The District's Master Plan for Reservation 13 includes a recommendation by Council that an area of the property be reserved for a hospital. Under the full-service hospital plan, NCMC would pay D.C. \$1 a year for use of the site; the potential for alternative revenue production constitutes an opportunity cost of the proposal.

Operational Risks

The OCFO's concern about the longer term operational risks of a full service hospital as originally proposed involve several assumptions:

- 80 percent capacity in year 5 of operations, above the DC acute hospital average of 76 percent.
- 15,000 outpatient surgeries, twice the District average.
- Daily emergency room visits that exceed all but two other area hospitals.
- Lower public insurance payors than the average of DC area hospitals (49 percent vs. 58 percent).
- A payor mix that resembles Washington Hospital Center.
- Salaries and wages to net revenue ratio of 40 percent, lower than the Standard and Poor's median ratio for stand alone hospitals of 51-56 percent.

See Appendix B for an analysis of the operational risk of the originally proposed full service hospital.

I look forward to working with you to ensure that the National Capital Medical Care project moves forward in a fiscally prudent manner.

Enclosures:

Appendix A: Analysis of Capital Costs

Appendix B: Risk Analysis of Operational Costs

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